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UNCLAS SECTION 01 OF 02 OTTAWA 001180

SIPDIS

SENSITIVE

DEPT FOR EB/IFD, WHA/CAN AND WHA/EPSC
TREASURY FOR OASIA/IMI - HARLOW, MATHIEU
USDOC FOR 4320/MAC/ON/OIA/JBENDER
CALGARY PASS TO WINNIPEG

E.O. 12958: N/A
TAGS: EFIN ECON ETRD CA
SUBJECT: MANITOBA BUDGET "STEADY AS SHE GOES" AGAIN

¶1. Summary: On the eve of a provincial election this spring, Manitoba's left-of-center New Democratic Party (NDP) government delivered a cautious budget on April 22, laying out its fiscal plan for the upcoming year. As in previous NDP budgets, this years' rendition features very modest tax-cuts for middle-income earners and devotes more money to health care. Based on an anticipated real growth rate of 3.2 percent, Finance Minister Greg Selinger projects the NDP's fourth consecutive balanced budget since taking power in 1999. Successive Manitoba Governments have brought down balanced budgets each year since ¶1995.

¶2. The NDP continued the tradition they began in last year's budget of raiding the revenues of the publicly owned electric utility, Manitoba Hydro, for C$52 million to help balance the books. In total, the GOM will collect approximately C$365 million in fees, "dividends" and assorted charges from Manitoba Hydro in 2003-4. A C$48 million draw on the province's fiscal stabilization fund will leave only C$145 million in the fund, compared to C$264 million when the NDP took power in 1999. The province expects to spend C$7.256 billion in 2003-4 (an increase of 4.7 percent over the previous year), with revenues increasing by 5.4 percent. End summary.

Manitoba Tax Rates Uncompetitive

¶3. Manitoba's meager - and largely symbolic - tax reductions, while welcome, have not kept pace with the more rapid reductions in most Canadian jurisdictions, feeding fears in the Manitoba business community that Manitoba is no longer competitive with other Canadian provinces, much less bordering states. Even after the cuts, Manitoba's personal and business tax levels remain among the highest in Canada. For example, Manitoba's personal income tax rates at all levels of income are higher than the rates paid by residents of six of Canada's ten provinces, including Ontario, Alberta, and British Columbia. At the same time, Manitoba's general corporate income tax rate is the second highest in the country. Provincial comparisons aside, when Manitobans expressed concerns that their tax rates put them at a competitive disadvantage with their U.S. counterparts, the Provincial Finance Minister responded that Manitoba retains a cost of living advantage over U.S. jurisdictions because higher payroll taxes and healthcare costs are not included in the U.S. figures. Manitoba also boasts relatively lower prices for electricity than neighboring provinces and states.

A Little Here, a Little There.

¶4. In a budget devoid of major initiatives or incentives, funding Manitoba's publicly-funded healthcare system clearly remains a priority for the NDP. Funding in 2003-4 will increase by 5.7 percent to just over C$3 billion, or 41 percent of the province's total budget. Most of the new money for health care is coming from the federal government.

¶5. Manitoba businesses will be offered a new tax credit to invest in equipment or technology that reduces their own energy consumption. The measure, which the GOM predicts will cost C$1 million, is meant to leave more hydroelectricity on the grid for export, mostly to U.S. customers. The GOM offered no estimate of the amount of energy that will be saved by the measure. As previously announced, the corporate tax will fall by a further 0.5 percent in 2004 to 15.5 percent.

¶6. Other spending decisions announced in the budget include a C$20/per month increase in welfare rates for single recipients and people with disabilities, as well as C$1 million to find new markets and products to shore up the beleaguered Port of Churchill.

Local Reaction: Underwhelmed

¶7. Business and taxpayers groups have roundly condemned the GOM for failing to provide any meaningful tax relief, and for the NDP's failure to keep Manitoba competitive with neighboring

jurisdictions. The President of the Winnipeg Chamber, Robert Kreis, said "It is a very good day for our competitor provinces and our competitor businesses outside the province." Jim Carr, president of the Business Council of Manitoba called it ".typically cautious without much risk taking, and there isn't much dare-devilling going on. It tries to straddle the middle, where most of the voters are. We would have liked to have seen more aggressive cuts to personal taxation."

¶8. The NDP's traditional allies on the left were slightly more restrained in their criticism of the budget, with Sid Frankel of the Social Council of Winnipeg applauding the move to inject $6 million into child care, but said the NDP is going to have to tax upper-income earners more if it plans to keep funding social programs, adding "Government has really put itself in a situation where it's not taxing those who are really benefiting from the economy." Gaile Whelan Enns, Manitoba director of the Canadian Nature Federation's Wildland Campaign, praised the NDP's new tax credit for businesses to reduce energy consumption, but panned the government for only funding the creation of one new provincial park while 138 areas in Manitoba need protection.

¶9. Reaction in Winnipeg's major newspapers has also been unfavorable. The centrist Winnipeg Free Press said that "if the middle class can be bought off with an average tax cut 20 months down the road of $155, what does that say about Manitoba?" It further lamented "that there does not seem to be an effective opposition with a vision more compelling to voters than the promise of a pitiful $155 saving on taxes eventually." The right of center Winnipeg Sun described the budget as having "far too many empty carbohydrates and not enough energizing protein."

Comment

¶10. This year's budget is consistent with the NDP's established practice in the last four budgets of being cautious to a fault, increasing funding to health care, and offering small, targeted measures on a multitude of issues, and continuing with the most modest tax cuts of any province in Canada. They have outlined the fiscal path they will use in the upcoming election campaign, and will be quite content to campaign on a balanced budget, a strong economy and the lowest unemployment rate in Canada at 5.2 percent. The opposition parties - especially the Progressive Conservatives - will likely focus their attacks during the campaign on Manitoba's uncompetitive tax environment and how it is preventing investment and growth as well as hastening the loss of the province's best and brightest to greener pastures elsewhere.

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